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The "Last-In, First-Out" Inventory Method

By A. R. KASSANDER
(New York Office)

The "last-in, first-out" method for determining costs and pricing inventories has gained recent prominence and become a matter of current interest. The American Petroleum Institute has adopted it as the standard for the petroleum industry. The special committee on inventories of the American Institute of Accountants gave careful consideration to the method as recommended by the American Petroleum Institute for use in its industry and found that it constitutes an acceptable method for those companies, which, finding it adaptable to their needs and views as correctly reflecting their income, apply it consistently from year to year.¹

Under the Revenue Act of 1938, tanners and producers and processors of nonferrous metals were permitted to use the last-in, first-out inventory method with certain restrictions. The Revenue Act of 1939 extends this privilege to all taxpayers who satisfy the condi-

tions prescribed in the statute, for taxable years beginning after December 31, 1938.²

PURPOSE OF LAST-IN, FIRST-OUT METHOD

The last-in, first-out method is predicated on the desire to avoid the recognition of profits which result from sales in a rising market of products obtained at relatively low cost and which are necessarily replaced at higher cost. It seeks to attain the objective through the use of procedures by means of which the costs of current purchases are applied to current sales; that is, costs of current sales are charged with raw materials at prices which most nearly correspond, in point of time, with those which will be paid to replace the materials consumed.

The last-in, first-out method is merely one method of determining costs and is to be considered, as to its usefulness, in comparison with

¹The full report of the committee appears in the *Journal of Accountancy* for August, 1936.

²A discussion of the Revenue Act of 1939 appears in the L. R. B. & M. JOURNAL for July, 1939.

other available methods such as "first-in, first-out" or average costs. The method assumes that current purchases are made for the purpose of replacing stocks used for current sales and that consequently the current purchases should be charged against concurrent sales. This method obviously results in an inventory valued at the cost of the earliest acquisitions as contrasted with the first-in, first-out method under which the latest costs are reflected in the inventory.

Theoretically, it is possible to use the method in any case in which either the first-in, first-out or average cost method could be used, including the valuation of finished goods. However, in some instances the mechanics of its application may render its adoption impracticable or inadvisable.

EFFECT UPON FINANCIAL STATEMENTS AND TAX STATUS WHERE MARKET IS LOWER THAN LAST-IN, FIRST-OUT COST

As previously stated, the last-in, first-out method is merely a method of determining costs and does not constitute a new fundamental accounting principle. Costs so determined may not correspond with prevailing market value and, where such market value is less than cost, for the purposes of the balance sheet an adjustment may be required if the inventory is to be described as having been priced on the

basis of the lesser of cost or market value.

In contradistinction to the foregoing treatment of inventories for the purposes of financial statements, however, in determining taxable income under the new tax law if the last-in, first-out method is adopted the inventories must be priced at cost. The law does not permit for tax purposes the use of the lower of last-in, first-out cost or market. If the lower of cost or market is used, cost must be determined as heretofore on an identification basis or a first-in, first-out basis. However, a taxpayer may use the lower of (a) last-in, first-out cost or (b) market for financial purposes without sacrificing the right to use the last-in, first-out cost basis for tax purposes.

The prohibition against the use of market for tax purposes appears to be confined to current first-line merchandise and materials, for the regulations issued under the 1938 Act and prior Acts (which will in all probability be continued under the 1939 Act) provide that even when inventories are taken at cost:

Any goods in an inventory which are unsalable at normal prices or unusable in the normal way because of damage, imperfections, shop wear, changes of style, odd or broken lots, or similar causes, including secondhand goods taken in exchange, should be valued at bona fide selling prices less direct cost of disposition . . . , or if such goods consist of raw materials or partly finished goods held for use or consumption,

they shall be valued upon a reasonable basis, taking into consideration the usability and the condition of the goods, but in no case shall such value be less than the scrap value. . . . Art. 22 (c)—2; Reg. 101.

The prohibition of the use of market for tax purposes may in certain circumstances create still another instance of difference between "tax accounting" and "business accounting." However, if price declines result in unallowable losses, the taxpayer may console himself with the knowledge that future recovery in prices will not *ipso facto* create taxable income.

The possible conflicting concepts between the tax law and accepted accounting principles arising out of the use of the last-in, first-out method, as well as the effects on the income account inherent in its use, render it desirable that the method be initiated at such time as the price cycle is deemed to be at or near its low point and further when the inventory on hand was actually acquired at or near the low prices. The 1939 Act provides that goods (presumably of like kind) which were included in the opening inventory of the taxable year in which the last-in, first-out method is first used are to be treated as having been acquired at the same time and priced by the average cost method. Therefore, if adoption of the method is properly timed, no substantial write-down of inventory should be necessary due to price decline in the fu-

ture, and no taxable income should arise from upward trends of prices of materials included in inventory. If adoption of the method is not timed correctly and a subsequent price decline should occur, the objective of the method may be defeated on two scores, in that it may be necessary to reflect inventory write-downs in the financial statements and at the same time such losses will not be recognized for tax purposes.

TYPES OF INDUSTRIES IN WHICH LAST-IN, FIRST-OUT METHOD IS MOST ADVANTAGEOUS

Theoretically it is possible to use the last-in, first-out method in any case in which either the first-in, first-out or the average cost method could be used. However, the practicability of its application, the pertinency to the purposes for which it was devised, and the practical effect of the results of its use as compared to other methods of cost determination, may vary greatly between various industries as well as various classes of inventory in the same industry.

The conditions which would make the use of the method most beneficial are:

- (1) When there is continued need for substantial quantities of inventories, of a type subject to wide price fluctuations, because of inherent characteristics of the business such as slow manufacturing processes, treating processes, etc.;
- (2) When the relative value of the raw material content of the finished

product is large and when, consequently, changes in the cost of the raw materials have a substantially greater weight on the cost of the finished product than have fluctuations in labor or overhead costs;

(3) When finished product is of such a character that selling prices react quickly to fluctuations in the replacement cost of raw materials;

(4) When "hedging" operations are not practicable, either because adequate future markets are not available or for other reasons, and the manufacturer is thereby deprived of a facility for limiting the speculative character of his investment in raw materials;

(5) When the investment in inventories is large in relation to other assets;

(6) When operating processes are continuous.

The method is most useful in those industries in which substantial quantities of inventories must be maintained and where there is an approximately direct relationship between sales and the current costs applicable thereagainst. Generally its usefulness would be more limited in any industry which does not in some way process material. Also, if the method is to be most applicable, the material should be basic and homogeneous and not involve style or design; consequently, it would probably make less appeal to retailers or specialized manufacturing businesses. If a business is merely a dealer in, for example, metals, or if its processing can be completed in a few hours, or if all sales are made for immediate delivery, the first-in, first-out or average cost methods would presumably not produce markedly

different results from those shown by the use of the last-in, first-out method.

REQUIREMENTS OF 1939 REVENUE ACT RESPECTING LAST-IN, FIRST-OUT METHOD

Before discussing the use of the last-in, first-out method for the several parts of the inventory, it is desirable to discuss the provisions of the Revenue Act of 1939 within the framework of which specific procedures should be effected.

An application to use the method must be filed at such time and in such manner as the Commissioner of Internal Revenue may prescribe and must specify the goods to which the method is to apply. For example, a taxpayer may apparently specify that the method will be applied only to raw materials not yet processed, or to all raw materials including raw materials in work in process and finished goods, or to a certain basic raw material, or possibly to the entire inventory.

The taxpayer must establish to the satisfaction of the Commissioner that he has not used any method other than the last-in, first-out method in determining income for credit purposes, or for the purpose of reports to shareholders, partners, or other proprietors, or to beneficiaries, for any period beginning with or during the first taxable year for which the last-in, first-out method is adopted. As already stated, however, the tax-

payer may use the lower of last-in, first-out cost or market for the purposes of his financial statements.

The provisions of the law which require that *for tax purposes* inventories be priced at cost under the last-in, first-out method, without any allowance for difference between such cost and market, have already been discussed.

Under this method goods in the closing inventory must be treated as being, first, those included in the opening inventory (in the order of acquisition) to the extent thereof, and, second, those acquired in the taxable year. The Report of the Senate Committee on Finance states that:

Goods acquired in the taxable year may be treated as having been acquired in the order of their acquisition and so valued, or their cost may be averaged, or any other proper method of valuation may be used with respect to such goods, depending on whatever is the proper treatment under the circumstances.

The foregoing quotation appears to permit considerable latitude as to the manner of application of the method, especially as to the period adopted for the unit of time within which the goods "last-in" are deemed to be the "first-out," that is, whether the fiscal year or a shorter period.

Goods of like kind which were included in the opening inventory of the taxable year in which the last-in, first-out method is first used are

to be treated as having been acquired at the same time and priced by the average cost method.

If a taxpayer adopts the last-in, first-out method for, say, the calendar year 1939, the inventory of goods (specified in the application) at December 31, 1938 must be priced at cost in determining the taxable income for the year 1938.

If the method be once adopted, it must be adhered to in subsequent years unless the Commissioner authorizes a change. Should the taxpayer change to another method for credit or report purposes, the Commissioner may require a change of method for tax purposes or may require that the last-in, first-out method be continued for tax purposes.

Application of "Last-In, First-Out" Method to Various Classes of Inventory

RAW MATERIALS

Probably the simplest application of the method would be in the pricing of one or a limited number of basic raw materials upon which no processing has been done. It would merely be necessary to value the inventory at the same prices which were used in the opening inventory to the extent thereof, and to value any quantities in excess of those on hand at the beginning of the accounting period at prices applicable to acquisitions during the period, the latter being determined either

in the order of acquisition or at the average cost of acquisitions during the period. Should the closing inventory be no greater than the opening inventory, the same prices would be used for the entire closing inventory as for the opening inventory.

Even in these relatively simple circumstances some peculiar effects may be produced, both in the financial statements and tax returns, if a long interval elapses between sales and replacement of the inventory during a period of rapidly fluctuating prices. It is for this reason that one of the conditions under which the use of the method is most desirable is the need for a substantial stock of the raw material. In some instances it may be desirable to use a period of time shorter than the fiscal year as the period during which material last in is deemed to be first out.

Problems of more or less complexity may occur in connection with interim statements. Even though sales, production and purchases may have fairly constant relationships over a full year, these relationships may vary substantially throughout the year in a seasonal business and result in inventory valuations founded upon varying and inconsistent price bases at the several statement dates. Again, the solution may lie in a shortening of the fiscal period for inventory purposes, although to do so may defeat the primary purpose of the last-in, first-out method, namely, the mini-

mizing of the effect of price fluctuations on the earnings of successive periods.

If the method is applied to all raw materials, no problems should result which differ in principle from those already discussed. However, in some cases it may be found more convenient to apply the last-in, first-out method only to the principal materials which have a significant effect on the financial position and determination of net income.

WORK IN PROCESS

In considering the application of the method to work in process, two fundamentally different conditions should be recognized. The first is found in an industry where the raw material in respect of which it is desired to apply the method can be identified readily and measured while in process. An example of this class of material in process might be copper sheets used, perhaps, in the manufacture of tanks. The second condition is found in industries where the raw material, as a result of physical or chemical change during processing or due to its presence as part of an assembly, cannot be inventoried as such but can only be identified by detailed analysis of manufacturing specifications. Examples of this condition might be the quantity of tungsten in alloy steel bars or the quantity of copper in an electric motor in course of assembly.

Under the former conditions the

quantity of raw material in process may be combined with similar raw material not yet included in goods in process and the combined quantities considered in the application of last-in, first-out method. In respect of miscellaneous materials in process, as well as the labor and overhead components, there seems to be no necessity for changing methods of cost determination which heretofore have been found satisfactory.

Under the latter conditions it would seem that existing methods for determining the accumulated costs in respect of goods in process might be continued, with the exception that requisitions evidencing the transfer of materials (for which the last-in, first-out method is used) from raw materials account to work in process, should be priced on a last-in, first-out basis. Apparently it is permissible to use average cost for the current year's acquisitions.

This procedure would have the effect of pricing work in process at the level of most recent costs rather than at a level relative to the cost of earlier raw material acquisitions. However, when the mechanics of internal accounting require the maintenance of a current work in process account separate from the raw material and finished goods accounts, it seems inevitable that the intermediate work in process account will at a given moment reflect the most recent costs. If this were not so, the most recent costs would

at no time be removed from the raw material account to be subsequently reflected as the most recent costs of finished product. It should be noted again that under the Revenue Act the taxpayer must specify the goods to which the method is to apply and may apparently specify that it shall not apply to classes of inventory in respect of which its use is not practicable.

FINISHED GOODS

Many of the features which have been discussed in connection with work in process are equally applicable to finished goods. If the raw material component is identifiable in the finished product, it may be combined with related quantities in the raw material and work in process accounts. When the raw material in question is not so identifiable, the basis for pricing finished product should be the cost records—last-in, first-out. The cost records would also constitute the basis for pricing labor and overhead in finished goods in those instances in which the raw material component is computed separately.

Standard Costs

Standard costs as such are not recognized as a basis for inventory valuation from either a tax or a business accounting viewpoint. In those instances in which inventories are valued at standard costs it is presumed that appropriate and adequate examination has disclosed

that the standards are in substantial agreement with the actual costs, after elimination therefrom of certain elements such as the cost of maintaining idle facilities and excessive costs due to inefficient operation.

In other cases detailed cost records may be maintained at standards but the aggregate inventories accumulated from such standards are adjusted by factors which have the effect of stating the total inventories at actual costs without disturbing the detail standards. The usual procedure consists of computing the relationship between total actual production costs and standard production costs. The resultant factor, which is applied to standard costs in order to determine actual costs, is computed separately for the several cost components and departments as may be appropriate in the circumstances.

It seems that such procedures may be continued in connection with the last-in, first-out method. Their effect is to develop the cost of the current year's production. The use of such current costs for valuing inventories will, however, be confined to those quantities which are on hand at the end of the

fiscal period in excess of the opening inventories.

Conclusion

Although the last-in, first-out inventory method is adaptable to many circumstances in which other cost methods could be used, it should not be assumed that the method is a panacea for all of the problems which confront business management in connection with inventories. The first-in, first-out method will continue to be an acceptable method of inventory accounting for determining taxable income in any industry. At least until there is a more general adoption of the last-in, first-out method for general accounting purposes, the first-in, first-out method will presumably continue to be an acceptable method for use in the preparation of financial statements. The possible problems involved in the mechanics of applying the new method should also be considered before deciding upon a change.

On the other hand, where the conditions exist which make the new method both logical and practicable, important benefits may be realized from the use of the last-in, first-out method in minimizing the effect of radical fluctuations in the price level upon the income account.

Report of New York Stock Exchange Stock List Sub-Committee on Independent Audits and Audit Procedure

TO THE MEMBERS OF THE COMMITTEE ON STOCK LIST:

The following report is respectfully submitted by your Sub-Committee on Independent Audits and Audit Procedure, appointed to review recent developments and trends of thought in auditing matters, with special reference to independent audits of the type which by Exchange requirement must accompany reports to stockholders of listed companies. The Exchange has for many decades worked with notable success for the extension of recognized accounting procedures, and for the ever-widening disclosure of sound and understandable information on corporate affairs. The introduction of requirements by the Exchange played an important role in making the independent auditor's report the customary accompaniment of annual financial statements to stockholders of leading American companies.

The broad improvement which has taken place over the years in American corporation accounting and in reporting to stockholders has been a gradual development marked by the consolidation of each advance, a progression in which abrupt

and ill-considered changes have largely been avoided. It is with a certain historical sense and a strong conviction of the soundness of such a well-integrated development that your Sub-Committee prefaces its report with the reminder that accounting and auditing procedures are in their very nature not final but evolutionary, both in themselves and in their adaptation to a continuously evolving business world, and that new developments should be introduced only where their practicability is reasonably established.

The most striking aspect of recent discussions is the discrepancy which exists between what the public seems to expect of independent auditors in making the customary audits for statements to stockholders, and what the auditors themselves, and the corporations, say is feasible to do within even the most extensive reasonable limits of expense to stockholders. Considerable portions of the public apparently believe that the reports of independent auditors are certificates of complete assurance, almost in the nature of guaranties. In a recent questionnaire addressed to a representative group of stockholders, only 11% knew that the auditor's

statement does not act as a guarantee of the financial statement. It is the considered opinion of your Sub-Committee, on the other hand, that independent audits cannot under complex modern business conditions give conclusive assurance against all possibilities of error and fraud. Assurance must be a matter of degree. This does not mean that audits are not of great value as independent checks of the correctness of the judgments of management and of the credibility of its representations, nor that they do not have an important deterrent effect.

It would be an error, however, to think that expressions of dissatisfaction with audits have come entirely from persons who entertain misconceptions of this kind. Many appreciate that there must be some limitations inherent in all audits, but claim that these limitations might be more explicitly stated in the auditor's report; or they go farther and ask for more extensive procedures either within the corporation or in the independent audit as regular practices on which the public can depend. The Exchange, which has done much in co-operation with the American Institute of Accountants to help bring about and to improve the independently audited report, must be equally interested in furthering the understanding which is a precedent of intelligent use. It is important that the investor should not either over-estimate or under-estimate the kind

and degree of assurance which the independent audit can properly give. It has been the duty of your Sub-Committee, therefore, to consider three specific aspects of the subject:

(1) Extensions in the scope and methods of audit practice.

(2) Means by which the limitations which necessarily exist in audits may most effectively be drawn to the attention of stockholders, through the auditor's report or otherwise.

(3) Changes in certain relevant corporate procedures, which may improve internal accounting or facilitate the work of independent auditors.

"Accounting" as Distinguished from "Auditing"

Your Sub-Committee was appointed to examine not the accounting phase, but the audit phase of the work of the independent public accountant. Nevertheless, it seems that a few words must first be devoted to the accounting portion of the work in order to re-establish a proper balance of emphasis. For there seem to be those who, when faced with certain inevitable limitations and qualifications in the audit phase, entertain doubts as to the value of the entire independent audit. They seem for the moment to overlook the importance of the accounting phase. This is partly, of course, the result of the recent McKesson & Robbins case, in which the fraud rested on the falsity of the factual matter which is the basis of all accounts. It may be worth noting, however, that a distortion

of emphasis may result also from a circumstance of terminology; the same word "audit" is used for the entire procedure, and also for one of its two phases. In discussion, the audit phase is sometimes confused with the entire procedure. In any case, the real importance of the accounting phase should not be overlooked in public discussion, even when attention centers, for the moment, on auditing checks.

It may seem elementary, but it is apparently necessary and important to emphasize again and again that financial statements of industrial companies are not statistical presentations of fact fixed in the form which the stockholder reads. While properly based on facts, these statements represent the judgments of the Company's management in the application of conventional methods of stating assets and liabilities and in appropriate allocations of income and outgo items to specific periods of time. For example, plant and property are usually stated on the basis of cost, or on some other conventional basis—and not at a figure supposed to reflect present day value. Other items are usually stated at going concern values, and profits are calculated on this basis.

The importance of a periodic review by outside experts to see that these numerous judgments have been made in accordance with accepted accounting principles consistently followed by the Company

must be apparent to every one—entirely apart from any methods the business world may employ to assure itself of the authenticity of the data underlying the accounts. The independent public accountant is thoroughly qualified to make such a review. For this he has been specially trained. The public is entitled to rely upon his opinion regarding the soundness and consistency of the accounting judgments made by the Company in the preparation of its reports to stockholders. If the independent public accountant does not concur in the results of these judgments, he will take exception to the Company's method by a statement in his auditor's opinion accompanying the financial statements. If his exception is of sufficient importance he will express no opinion, and explain in his report why it is withheld. The independent public accountants' opinion on the soundness of judgments and consistency of methods is of real importance—for even with correct factual data at the base, the possibilities of accounting errors and misrepresentations are very great.

The Audit Phase

From facts so far available, it appears that the McKesson & Robbins fraud rested primarily on the falsity of the underlying documents purporting to represent certain assets and transactions, which have been found to be entirely fictitious. This report is particularly con-

cerned with the auditing phase, which seeks to establish the correctness of the bookkeeping and of the underlying factual material which form the bases for the exercise of accounting judgment and for the resulting accounts. What assurances can be given to the stockholder that entries upon the books have been properly made so as to classify and reflect the records presented by the underlying documents: the vouchers, bills of lading, time books, etc.? And what assurance can be given that these underlying documents in turn authentically reflect genuine assets, liabilities and transactions? Is the Independent Auditor, from his examination, able to give complete assurance that the records are anchored in fact?

Where companies are small and business is not complex, an exhaustive detailed examination of all transactions can be made, and an independent auditor is able to give a greater measure of assurance that the data—the “statistics” of the accounts—are accurate. But while such small companies are more numerous, they are not, generally speaking, the companies whose securities are listed on the Exchange. In the case of large modern companies, the aggregate expense to industry of extremely detailed examinations of the voluminous material, by independent accountants, would be out of all proportion to the possible benefits to be gained in the occasional detection of ir-

regularities in a few concerns. Most companies are honestly run, and the huge expense which would be incurred by all for detection of occasional misrepresentations in the few would in the aggregate be an economic waste to investors and to the public.

Even when this cost is not weighed in relation to American business as a whole, but only in relation to a single large modern concern, it is doubtful if even a most detailed examination would be a complete safeguard. The recent audit of McKesson & Robbins ordered by the Trustee following disclosure of the Coster-Musica frauds is probably one of the most detailed audits ever made of a large industrial concern by independent public accountants. Independent engineers were retained to examine and test check the quantity, quality and pricing of the inventory and many months were spent in an examination of hundreds of thousands of items and tens of thousands of pages of records. Even this audit could not cover all transactions, and the independent auditor's report included the customary phrase: “But we did not make a detailed audit of the transactions.” We mention this only to indicate the burden which would be placed on corporations if all transactions were to be audited in detail. It is hardly necessary to point out that the time factor involved in such audits would likewise make anything even remotely simi-

lar, impracticable for preparation in time for the stockholders' meeting which follows the close of the fiscal year.

The primary responsibility for the accuracy of the records lies with the management, and many large corporations have recognized the complexity of the problem as well as their responsibility by maintaining extensive systems of internal control, by which the records kept by any one person are automatically checked by one or more other persons in unrelated departments, and of internal audit, by which tests are continuously made of the efficacy of internal control. It seems a fair statement to say that such devices, especially when properly applied by an internal auditor or controller whose work is performed independently of officials, are in large companies apt to be more efficacious in uncovering irregularities than are the less frequent examinations by an independent auditor. The latter, however, assumes responsibility in making an additional check, which, if occasional and less detailed, derives great value from the independence and from the accumulated general experience of the auditor.

Scope of Independent Auditor's Examination

Under sound corporation accounting practice no restrictions are imposed on the freedom of access of the independent certified public ac-

countant to any records that he considers necessary in order to express his professional opinion that the financial statements present fairly the position of the company and the results of its operations. The extent of the examinations and tests to be made within this broad field of access must vary with the circumstances of each case, and must be determined by the judgment of the auditor. An auditor cannot properly give an opinion when the extent of his examination is less than he considers necessary. Your Subcommittee believes that the primary responsibility for establishing standards of the scope of the independent auditor's examination must rest with the accounting profession. The Exchange can co-operate with the profession in efforts to improve and extend auditing procedure, balancing the need for the widest protection of the investing public with considerations of practicability and cost to the stockholder.

The more detailed audit procedure which is practicable in small concerns is modified to a method of "test checking" or sampling in the case of sizable companies. It may be said in the most general way that the amount of test checking done by the auditor in a particular company has tended to vary inversely with the degree of internal control effectively maintained by the company itself; so that, speaking very broadly, the tendency has been to make relatively more numerous test checks in the

smaller, less complex companies, where in fact the checks were more practicable, and less numerous ones in the larger, more complex companies, where extensive systems of internal control exist. However, even in this it is difficult to generalize, as practice has varied also, as already indicated, with considerations of necessity and practicability in the particular company, as well as with considerations of internal control and of size. In all cases where systems of internal control exist, it has been general practice to make an audit study of the adequacy and effectiveness of the system as a basis for determining the character and extent of sampling and testing to be applied.

Inventories and Receivables

The American Institute of Accountants, in collaboration with State professional societies, trade organizations and others, has been engaged in a review of all phases of auditing procedure. Although the standard bulletin of the Institute as to audit scope—"Examination of Financial Statements"—is in the process of revision, first attention has been given to inventories and receivables, the principal points of discussion since the McKesson & Robbins case.

It appears from a recent report of the Special Committee on Auditing Procedure of the Institute and from later studies that have been made by the accounting societies and

accountants generally that the profession will adopt as generally accepted procedures, more extensive practices in the examination of inventories and receivables. It is expected that generally accepted procedure will include closer physical contact with inventories, where they are material, either through the independent accountant's presence at inventory taking or by the making of physical tests under his observation. Where the amount of inventories in outside warehouses is material, confirmation in writing will be supplemented by further inquiries. It is expected that the procedure of confirming receivables by direct communication with debtors will be more widely used wherever practicable. Your Sub-Committee endorses these extensions of generally recognized auditing procedure.

Both the auditing and the accounting phases of the profession of accountancy are not static—methods are constantly being developed to keep pace with the evolution of business. The Exchange will continue to welcome co-operation in its efforts to improve auditing methods, from the accounting profession and from listed corporations, who, in turn, must answer to the desires of their stockholders. The accounting profession and business itself have excellent reasons for extending audit procedure to the limits of practicability and reasonable economy.

While no final appraisal of the extensions of auditing procedure now

under consideration can properly be made by your Sub-Committee until they have been observed in practice, a common sense consideration of certain circumstances may throw some light on their probable applicability to certain types of companies. Three matters should be kept in mind: first, that the independent accountant is not by training qualified nor does he claim to be able to make such tests as would enable him to express an opinion on the condition of inventories, nor, in certain cases, can his observations of inventory count carry much significance if the materials which are being counted are of such a nature that a technical knowledge of their form and substance is essential; secondly, that the complexity and far-flung operations of many large concerns, in addition to frequent technical difficulties, would make detailed physical checking under the observation of the auditor enormously expensive; and, thirdly, that there is an important practical limitation of time upon such investigations—the report must be prepared in a few months at most after the close of the fiscal period. It may safely be said that the usefulness of the extensions will vary greatly in different companies and in different industries, and that, in many large corporations, the system of internal control, as independently checked, will probably remain the principal source of assurance that the book-keeping records are correct. On the

other hand, the proposed extensions of audit procedure have substance in that they place increased emphasis on independent contact with the underlying facts.

Before leaving this subject of auditing procedure, your Sub-Committee feels that, as a result of recent disclosures, too great an emphasis may currently be placed upon the inventory and receivables phases of the accountant's work. While the auditing of assets of this type is admittedly important in most companies, the various procedures followed in the examination of other asset items may often be of equal or greater significance. A well-rounded audit, designed to cover all phases of a company's business, obviously would afford greater safeguards in the majority of cases than one where excessive emphasis is placed on certain phases of the audit to the possible neglect of others.

In recommending extensions of audit scope, the Institute of Accountants rightly emphasizes that complete responsibility on the audit side is not thereby being approached. The report of its Special Committee says: "to exhaust the possibility of exposure of all cases of dishonesty or fraud, the independent auditor would have to examine in detail all transactions." We know that in many corporations practical limitations will not permit the checking of any but a small part of the transactions. We come back, therefore, to the dilemma mentioned in our

first few paragraphs—how to acquaint the investing public with the limitations which must exist on the audit side, while emphasizing at the same time the true value and proper use of independent audits; i.e., as independent examinations of accounting methods, for which the auditor is expected to assume responsibility, and as independent additional checks on factual data, of considerable if not of conclusive value.

Form of Auditor's Report or Certificate

The auditor's certificate, or "auditor's report," as the profession prefers, is the statement by the independent public accountant with respect to the financial statements which, according to the listing requirements of the Exchange, must accompany these statements in the annual reports to stockholders of listed companies (except railroads operating under the supervision of the Interstate Commerce Commission). This report affords a method of acquainting the general public with some indication of the scope and limitations of the audit.

Your Sub-Committee believes that as a general rule, the auditor's certificate should not be a long and detailed report obscured by lengthy explanations of technical procedures. It believes that the short form heretofore used may well be improved and is in accord with many of the changes recently suggested

in the report of the American Institute of Accountants' Special Committee. It is expected that the Institute will adopt a standard form of report at its annual meeting in September, when final consideration is given to current suggestions with respect to extensions of audit procedure. When the profession has crystallized its views on the details of the standard form of certificate your Sub-Committee may submit a further report. In the meantime it is co-operating with the American Institute and others in the profession to develop the most concise, unequivocal and illuminating form which can be agreed upon. It is no easy task to express in a few words the description of the character of the examination followed in the audit of a company.

It is generally conceded that a program of general education of the public in the significance and necessary limitations of financial statements and audits is highly desirable. In recent accountants' speeches and reports, widely quoted in newspapers and periodicals, very explicit statements are made of the meaning, value and inevitable limitation of independent audits. Your Sub-Committee urges more widespread familiarity with the Institute's Bulletin, "Examination of Financial Statements"; the "Report on Independent Audits," made to the Board of Governors of the Exchange in 1933; "Extensions of Auditing Procedure," the most recent report

of the Institute; and the April, May, and June, 1939, issues of "The Journal of Accountancy," which include enlightening summaries of parts of the recent S. E. C. hearings following the McKesson & Robbins case, at which the views of twelve leading members of the accounting profession were given on numerous questions of auditing procedure. These summaries are not long, and the views expressed are worded so that even those with little technical knowledge may get a broad view of present day auditing problems and experience.

Recommendations as to Corporate Procedures

Your Sub-Committee regards the responsibilities of corporations in auditing matters as two-fold: to institute such corporate procedures as will make its system of bookkeeping, and of internal control and audit, as efficient as possible; and to facilitate in every reasonable way the work of the independent auditor. Of a large number of proposals considered in these connections, your Sub-Committee has selected four as sufficiently important and practicable to warrant endorsement by the New York Stock Exchange. These recommendations are made subject to consideration of applicability in the particular case, and in the knowledge that their usefulness in connection with audits might have to be weighed against other disadvantages.

1. STRENGTHENING THE POSITION OF THE INDEPENDENT PUBLIC ACCOUNTANT

This might best be accomplished through the general assumption by Boards of Directors of direct responsibility for either the appointment of the auditors or for their selection and recommendation to the stockholders for approval. Where practicable, the selection of the auditors by a Special Committee of the Board composed of Directors who are not officers of the Company appears desirable.

The results of the auditor's examination should always be available to the Board of Directors, his report should be addressed to the stockholders, and he should be afforded the opportunity to appear at any stockholders' meeting.

2. INCREASING THE RESPONSIBILITY, AUTHORITY, AND FACILITIES OF THE CONTROLLER OR INTERNAL AUDITOR

More emphasis should be placed on the responsibility of the Controller and the assurance to him of adequate authority and facilities. The scope of his responsibilities should be fixed by the Board of Directors, and he should report periodically to them, in addition to making his customary reports to the operating management.

The Controller or chief financial officer should sign the published financial statements of his company, even in those cases where the state-

ments are accompanied by the report of the independent public accountant.

Independent and efficient accounting and internal auditing departments are a vital factor in assuring the accuracy of the books and published reports. The importance of the Controller or internal auditor in these connections is paramount and the Board of Directors should take an active interest in his selection.

3. ADOPTION OF NATURAL BUSINESS YEAR IN LIEU OF CALENDAR YEAR

The Natural Business Year of the industry in which a company is engaged is recommended, unless impracticable for special reasons, as the fiscal year of the company instead of the Calendar Year. The more general adoption of the natural business year by companies in each industry would to a large extent smooth out the huge peaks of audit work which now occur in the early part of each calendar year. By adopting a Natural Business Year which conforms to the true business cycle of the particular industry, corporations may simplify their problems of year end adjustment and reduce the cost of stock-taking, besides permitting a more efficient and more economical audit. The income account of a company based on a completed cycle of a normal year's operations would give the investor a fairer picture of the

operations of his company. Reports of companies in the same field of business would be directly comparable, as almost all industries have their own clearly defined natural business years.

4. APPOINTMENT OF THE INDEPENDENT PUBLIC ACCOUNTANTS EARLY IN THE FISCAL YEAR

The appointment of the independent auditor early in the fiscal year appears eminently desirable, so that part of his work may be done during the year and he may be free to make an examination of any phase of the company's operations at any time.

In conclusion, your Sub-Committee desires to call attention again to the evolutionary character of accounting and auditing procedures and to recommend that the Exchange continue as it has in the past to welcome collaboration from corporations, professional accountants, controllers and others engaged in formulating improvements in practices. We believe that such activity will in the future as it has in the past, add to the safeguards provided to investors in listed companies.

Respectfully submitted,

*Sub-Committee on Audits and
Audit Procedure,*

WILLIAM K. BECKERS, *Chairman*
JOSEPH KLINGENSTEIN

August 11, 1939.

(Concluded on page 22)

The L. R. B. & M. Journal

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members and employees of the firm.

The purpose of this journal is to communicate to every member of the staff and office plans and accomplishments of the firm; to provide a medium for the exchange of suggestions and ideas for improvement; to encourage and maintain a proper spirit of cooperation and interest, and to help in the solution of common problems.

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"Last-In, First-Out"

The leading article in this issue of the L. R. B. & M. JOURNAL is unusually timely, partly because of the provisions of the 1939 Revenue Act which permit a much wider application of the "Last-In, First-Out" inventory method (which was first permitted in a restricted way in the Revenue Act of 1938), and partly because of the war situation in which the world now finds itself.

During the World War, particularly its first several years when our country was not yet engaged as a combatant, large profits were reported by many corporations which utilized goods purchased at normal prices to fill war orders at high selling prices. Naturally, however, if such concerns were to remain in business they had to replace the lower cost goods with goods purchased at the current war prices.

When the post-war slump in prices made itself drastically felt in 1920 many corporations had to show abnormal losses by writing their inventories down to current market prices, and thus in effect wrote off a substantial portion of the profits which they had shown during the war period.

The development was an extraordinary one and the business experience of the country for a generation before had given no occasion to prepare for dealing with such a situation. Furthermore, whenever the subject came up for discussion among business and financial men during the war, the opinion was universally expressed that we would not again see a return to anything like the pre-war level of prices as the needed reconstruction of the war stricken areas would in itself tend to cause a demand for materials and goods which would tend to maintain prices at something like the level attained during the war period.

During the 1920's ~~prices~~ recovered, and by the end of that decade were, even if not back to war levels, at least substantially above the pre-war level. The depression, however, brought a renewal of the experience following the close of the war and many concerns again had to make large inventory write-offs which, in effect, wiped out a substantial portion of the profits reported during the prosperous years of the twenties.

The "Last-In, First-Out" method

of costing inventories was conceived in an endeavor to minimize the effect of the violent fluctuation of the price level and to avoid the recognition in financial statements of profits which might be, in effect, immobilized in inventories.

The much wider application of this method now permitted by the new income tax law, as well as the possibility of abnormal conditions again resulting from the war which has just begun, should cause business men to give serious consideration to the adoption of this method of costing sales and inventory in those industries where the circumstances are such as to facilitate its use.

Stock Exchange Report on Audits

In this issue of the JOURNAL, we are bringing to our readers the full text of the report which a Subcommittee of the Committee on Stock List of the New York Stock Exchange has recently made on independent audits and audit procedure. We have done this because it has seemed to us that this report is such an outstanding statement of the scope and method of independent audits and audit procedure under modern business conditions, as understood by a group outside the accountancy profession, that it deserves a wide reading by both the members of our organization and our clients. The report is also

worthy of careful study because of the recommendations which it contains.

Presumably the New York Stock Exchange speaks primarily to and for its members and to those corporations, the securities of which are listed on that Exchange. Nevertheless, a report such as the one under consideration finds a much larger audience, and corporate procedures recommended by the Exchange are likely to find a much wider adoption, than within the jurisdiction of the Exchange. Furthermore, since the largest and best-known corporations of the country have for the most part their securities listed on the Exchange, their adoption of recommendations by the Exchange tends to set an example which the directors and executives of the smaller and non-listed companies are likely in the course of time to follow.

We feel that in this report the Exchange has rendered a real service to the business community and that the wide-spread adoption of its recommendations should have a very helpful effect in the business world.

Ignorance of Costs

When Mr. James H. Perkins, Chairman of the Board of Directors of the National City Bank of New York, recently appeared before the Senate Committee on Banking and Currency, he emphasized the un-

sound character of some of the apparent demand for credit. In part, he said that:

Many of the people who are most anxious to borrow money and who make the most noise about it, and who, if they are not satisfied at their own banks, are most likely to make vigorous appeals to Congress and other agencies of government, are people who are visionary and impractical or inexperienced. It is no favor to a large number of these people to loan money freely to those who are unbusinesslike, for the result is simply to get them in debt up to their necks, and they are never able to get out. They simply add to the long list of business failures and personal bankruptcies. *Every business man knows his toughest competition comes from an incompetent rival who does not know his costs.* Subsidizing that kind of competition makes things harder for the business man who is doing a good job. . . . The idea that the way to prosperity is to make it easy for people to get into debt does not stand the test of experience.

The sentence which we have set out in italics above states what the accountant has many times observed.

War

The effect of war on business and finance has been well portrayed in the following sentences which appeared in the September letter of the National City Bank of New York:

. . . war is the most disrupting influence upon the world economic organization that can possibly be experienced, and non-combatants as well as combatants are affected. War ruthlessly dis-

organizes the co-operative system of production and trade. It takes men from the work of supplying each other's wants, and sets them instead to waste and destruction. It interferes with transportation, creates new credit hazards, closes some markets and opens others, and raises the demand for some goods and reduces it for others. It raises costs and throws prices into disorder, and thus upsets the accustomed terms upon which trade is carried on. On the financial side, the simultaneous increase in demand for goods and the withdrawal of workers from productive activity, together with expansion of credit to finance Government expenditures, subjects every country to the danger of inflation. War upsets established currency relationships, . . . and it adds to

debt, wastes capital and savings, and breaks down monetary systems.

How strange that man in his individual relationships with his fellow man has long since learned to adjust himself so that he resolves disagreements and disputes by such orderly processes as negotiation, trial in court or arbitration, whereas in the mass (peoples or nations) he acts in the most insane manner conceivable, that is by resort to the destructive and usually inconclusive method of war! How true that statement that "we learn from history that men never learn from history."

Report of New York Stock Exchange Stock List Sub-Committee on Independent Audits and Audit Procedure

(Continued from page 18)

The Committee on Stock List adopts the report and recommendations of the Sub-Committee on Independent Audits and Audit Procedure. The Committee on Stock List directs that copies of this report be printed and transmitted to the members of the Board of Governors, with the recommendation that it be adopted at the next regular meeting of the Board and distribution made to the Presidents of listed

companies and to the members of the New York Stock Exchange.

August 15, 1939.

Committee on Stock List,

JOHN M. HANCOCK, *Chairman.*

JOHN HASKELL, *Vice-President and Director.*

Adopted by the Board of Governors, August 23, 1939,

CHARLES KLEM, *Assistant Secretary.*

Social Security Act Amendments of 1939

By JOHN A. MARIK
(*New York Office*)

On August 5, 1939, Congress enacted a bill amending the Social Security Act of 1935. This bill was signed by the President on August 10, 1939. These amendments are designed to liberalize the old-age insurance program. Taxes have been reduced. The Federal financial program for public assistance has been modified so as to develop state public-health, child-welfare and vocational-rehabilitation programs and to enable states to increase aid to the needy, aged, blind and dependent children. Tax savings of unemployment compensation have been made possible as a result of the amendments.

Federal Insurance Contributions for Old-Age and Survivors

Among others, the following important amendments have been made to Subchapter A of Chapter 9 of the Internal Revenue Code, formerly Title VIII (Old-Age Benefit Contributions) of the Social Security Act.

RATES OF TAX

The old-age insurance tax rate has been set at 1 per cent on the em-

ployee and 1 per cent on the employer for the calendar years 1940, 1941 and 1942. The rate for those years under the old law was 1½ per cent. The rate of tax now applicable is the rate in effect at the time the wages are paid and received without regard to the rate in effect at the time the services were rendered.

TAXABLE WAGES

On and after January 1, 1940, certain types of payment heretofore taxable are excluded from the definition of wages the most important of which are (1) payments made by an employer to or on behalf of an employee under certain plans to provide for retirement, sickness, accident, death or life insurance, provided the employee, while alive, does not have certain specified rights or options, (2) payments by the employer of Federal insurance contributions or state unemployment insurance taxes imposed upon the employee but not deducted from his wages or reimbursed by him to the employer, and (3) dismissal payments which the employer is not legally obligated to make.

EMPLOYEES ATTAINING AGE 65

On and after January 1, 1939, the exception heretofore accorded to services performed by persons over age 65 has been repealed. As a result of this legislation, employers are now required to deduct from the wages paid to such employees for services rendered by them on and after August 10, 1939, which are not otherwise excepted, not only the 1 per cent employee's tax on those wages but also *back employee's tax* at the same rate on all taxable wages paid to such employees for services rendered by them from January 1, 1939 through August 9, 1939, inclusive. The employer is liable for all of such employee's tax collected by him. The employer is also personally liable for all of such employee's tax even though he does not collect it from the employee, with one exception. That exception applies in the case of employee's tax paid for services rendered prior to August 10, 1939 by employees over age 65, which is not collected from the employee and only then, if the employer does not have under his control on or after November 8, 1939, remuneration earned at any time by the employee. Special attention is directed to the fact that this exception applies only to the employer's liability for the employee's tax and does not extend to the liability for the employer's tax. The employer is, therefore, liable in any event for the employer's tax not only on the wages

paid to each employee over age 65, for services rendered to him on and after August 10, 1939, but also on the wages paid to such employee for services rendered to him during the period January 1, 1939 through August 9, 1939, inclusive.

Official regulations will be issued at an early date prescribing the time when, and the manner in which these back taxes are to be reported and paid.

Adjustment of Taxes

More latitude is now allowed by the amendments in the manner in which the varied situations requiring adjustment may be treated. The term "wage payment" which had a restricted meaning has been eliminated and in its place the term "payment of remuneration" has been substituted, with a provision allowing adjustments to be made in such manner as may be prescribed by regulations.

SPECIAL REFUND

Commencing with the year 1940, a remedial amendment allows an employee, who renders services to more than one employer during any calendar year, to obtain a refund, without interest, of the employee's tax paid on wages in excess of \$3,000 received by him with respect to employment during such year. Under the existing law, both the employer's and employee's taxes are collectible on the remuneration of an employee with respect to employment during

any calendar year up to and including \$3,000, received from each of his employers. At any time within two years after the close of the calendar year, the employee is entitled for 1940 and thereafter to file a claim for this special refund of employee's tax in excess of \$3,000 for such a year, which has actually been deducted and paid to the Collector. There is no provision for a similar refund to an employer of the employer's tax.

RECEIPT FOR EMPLOYEE

On and after January 1, 1940, every employer must issue to each employee a statement in a form suitable for retention by the employee, indicating the taxable wages paid to him after December 31, 1939. This statement must cover one or more, but not more than four, calendar quarters indicating the names of employer and employee, the period covered by the statement, the total wages paid within the period and the employee's tax with respect thereto. Such statement must be issued to the employee not later than the last day of the second calendar month following the period covered by the statement.

The employer has the option of furnishing a receipt at the time of each payment of wages in lieu of a single receipt for the entire quarter.

Where there is a termination of the employment, the final statement must be issued to the employee at the

time the final payment of wages is made.

A civil penalty of not more than \$5 is incurred for each failure to furnish the statement in the manner, at the time and showing the information required.

Benefits

In general, the amendments to the old-age insurance provisions of the Social Security Act expand the system for the payment of retirement benefits to employees into an insurance system for the protection of both the worker and his family. Provision is made for the earlier payment of monthly benefits, that is, beginning with January 1, 1940, instead of January 1, 1942. More liberal benefits are to be paid upon retirement to those now nearing age 65.

The amendments have broadened the plan to take into consideration the security of the family unit by an extension of supplementary benefits to wives, age 65 or over, and dependent children under 18. Monthly survivors' benefits are provided for aged widows, dependent children and for dependent parents of workers who die. Lump sum payments to workers reaching the age of 65 years are discontinued as of August 10, 1939.

Under the revised law, the worker must retire in order to receive monthly benefits, but his sixty-fifth birthday does not necessarily mark the end of his participation in the in-

insurance plan for he will continue to accumulate wage credits as long as he works in a job covered by the program, no matter how old he is. Benefits will now be calculated on the *average monthly* wage of the employee instead of on the *total* wages earned.

Federal Unemployment Tax

Among others, the following important amendments have been made to Subchapter C of Chapter 9 of the Internal Revenue Code, formerly Title IX (Unemployment Insurance) of the Social Security Act.

BASE OF TAX

Commencing with the tax for the year 1939, the basis of tax liability has been changed from "wages payable" to "wages paid." This conforms the Federal Unemployment Insurance Tax Act with the Federal Insurance Contributions Act.

EXTENSION OF TIME

An extension of time for the filing of returns for not more than ninety days is authorized. Under prescribed rules and regulations, the taxpayer may be given thirty days in addition to the sixty days allowable under the old law within which to file the return, which is due on January 31st.

TAXABLE WAGES

On and after January 1, 1940, the term "wages" is identical with that

under the Federal Insurance Contributions Act and the same exclusions previously mentioned in the discussion of that Act apply. Under the amendments, the \$3,000 limitation on remuneration applies to payments during the calendar year 1940 and thereafter for the purpose of the Federal unemployment tax. The foregoing limitation does not apply to the year 1939 or previous years, the total amount of wages for those years being subject to the tax.

CREDIT AGAINST TAX

Effective with the tax for the year 1939, the taxpayer is now allowed to credit (subject to the 90 per cent limitation) the contributions paid under a state unemployment insurance law, without regard to whether such contributions are with respect to employment as defined in the Federal Act. More time is now allowed to pay state contributions and secure credit against the Federal tax by permitting full credit for contributions paid after the due date of the return (January 31st), but on or before June 30th next following the due date. However, this credit may not exceed 90 per cent of the amount which would have been allowable as a credit on account of such contributions, had they been paid on or before the due date, that is, 81 per cent of the Federal tax. Furthermore, in any case, where the taxpayer has made a payment to the wrong state, the payment to the proper state will now be deemed for

the purpose of the credit against the Federal tax, to have been made on the date of the erroneous payment.

ADDITIONAL CREDIT

Effective with the tax for the year the credit against the Federal tax to 1939, the additional credit allowance, due to reduced state rates in connection with stabilized employment, will be based on the difference between the amount of contributions the taxpayer was required to pay under the state law and the amount he would have been required to pay during the taxable year if he had been subject to the highest rate under the state law, *or to a rate of 2.7 per cent, whichever is lower.* This amendment also eliminates the possible necessity for measuring additional credits in terms of periods of less than one year.

CLAIMS FOR CREDITS AGAINST THE TAX FOR THE YEARS 1936, 1937 AND 1938

Special relief is granted to taxpayers who failed to pay contributions to the states on time in respect of calendar years 1936, 1937 and 1938. Such contributions must be paid into the state funds before the 60th day after the enactment of the amendments, that is, before October 9, 1939. There is a further provision for credit for contributions paid on or after October 9, 1939 with respect to wages paid by the employer

after September 19, 1939 for services rendered during 1936, 1937 and 1938. Wages may still be paid with respect to those years and it might not have been possible to estimate the amount thereof or the amount may have been underestimated. In such cases, credit would otherwise be lost in the absence of this remedial provision.

In order to relieve cases of hardship arising from the change in the basis of taxation from "wages payable" to "wages paid," provision is made for the allowance of credit against the tax for the taxable years 1940, 1941 and 1942, in which remuneration is paid for services rendered in a taxable year after December 31, 1938, and which have not been credited against the tax for any prior taxable year.

Where a state court of last resort has held contributions paid under the state law for the years 1936 or 1937 not to have been required, relief is granted to the taxpayer by an allowance of credit against the Federal tax for so much of any such payments as is not refunded to the taxpayer. The period of statutory limitation for claiming refund of the Federal tax does not begin to run against the taxpayer to whom payments are returned until the last of such payments are returned to him, and the amount of his state tax liability finally determined.

Notes

Mr. Louis D. Kork, who has been a member of our organization for 15 years, is now associated with Mr. Henry M. Cryer in the management of our Cleveland office. Mr. Kork was first with our San Francisco and Los Angeles offices and was manager of our Portland office from November, 1927 to December, 1936. From January, 1937 to August, 1939 he was with our New York office. He is a C. P. A. of several states and is a member of the American Institute of Accountants. Although our New York office regrets to see him go, we feel sure he will make as many friends and serve our clients as satisfactorily in Cleveland as he did in those of our offices with which he previously has been associated.

Mr. Albert E. Hunter of the Boston office has been elected vice-president of the Massachusetts Society of Certified Public Accountants.

In July, Mr. Eugene E. Boutelle of the Boston office gave a talk to customers' men and other employees of Boston members of the New York Stock Exchange on the subject of "Interpreting Financial Statements" as a part of their preparation for examinations given under the auspices of the Boston Exchange.

Mr. T. W. Mohle, manager of our Houston office, recently attended, with Dr. McLeod and President Knapp, a meeting of industrial accountants in New Orleans for the purpose of discussing the formation of a New Orleans N.A.C.A. chapter. The present plans call for the formal organization of that Chapter October 1st.

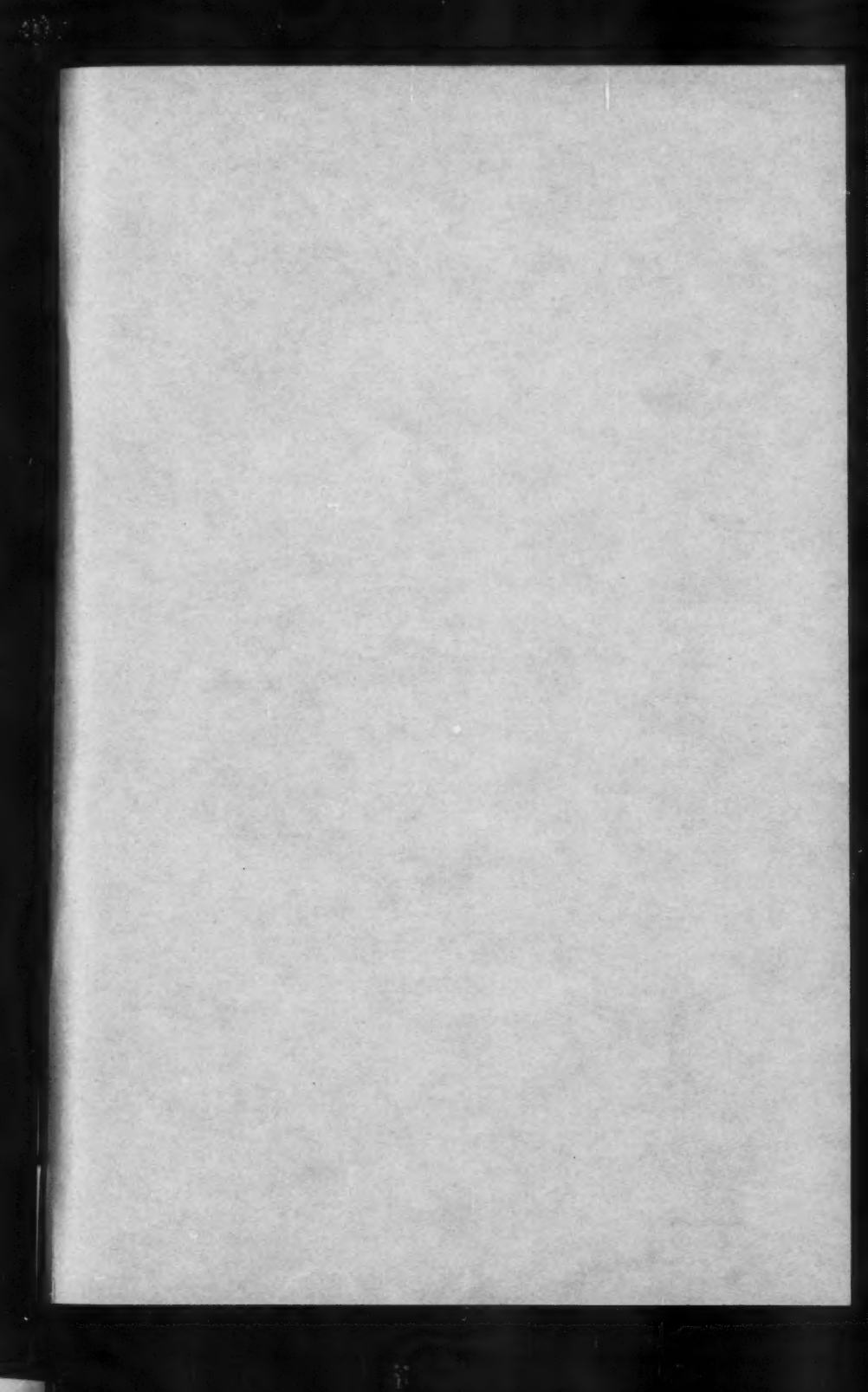
Mr. John M. Carson of our Philadelphia office has been elected a Director of the National Association of Cost Accountants.

Messrs. James K. Loughry and Sidney A. Stahlschmidt of our New York office were recently admitted to membership in the American Institute of Accountants.

Messrs. Charles Axelson, E. W. Buge and A. O. Zipser of our Chicago office were recently granted the C. P. A. degree as a result of passing the May examination. Mr. L. L. Jay of the San Francisco staff has passed the California C. P. A. examination.

Mr. A. W. Ambler of the New York office was recently elected an associate of the Royal Photographic Society of Great Britain.





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